



HONG KONG MONETARY AUTHORITY

香港金融管理局

Our Ref: B9/32C

29 November 2013

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

**Supervisory Policy Manual (SPM)  
Module IC-6 “The Sharing and Use of Consumer Credit Data through a Credit Reference Agency”**

This circular provides further guidance in respect of some issues related to positive mortgage data sharing arrangements that were identified during our thematic on-site examinations on a number of Authorized Institutions (AIs) engaging in mortgage loan business. AIs should take note of the guidance and review whether they have similar issues in their institutions, and if so, strengthen their existing controls, policies and procedures according to the guidance set out at Annex.

In addition, I would also like to take this opportunity to remind all AIs of the need to comply with the Personal Data (Privacy) Ordinance and any relevant code of practice and guidance in relation to the sharing and use of consumer credit data through a credit reference agency.

Yours faithfully,

Meena Datwani  
Executive Director (Banking Conduct)

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**Policies and procedures**

AIs generally have high-level policies and procedures in place on the sharing and use of consumer credit data. However, some AIs did not have detailed adequate operational procedures on how to handle the following matters:

- checking and reviewing the access log that records the instances of access to the credit reference agency (CRA) database;
- handling of customers' disputes over their credit data in the CRA database by the frontline staff and relevant back-end departments;
- handling of potential breaches of the Code of Practice on Consumer Credit Data (Code), including incidents of improper access to the credit data in the CRA, and maintaining proper documentation of the breaches and incidents, investigations undertaken, results and actions taken (including escalation of breaches to senior management);
- rectification of inaccurate data contributed to the CRA; and
- updating the CRA database upon (i) full or partial repayment of amounts in default or written off, (ii) entering into schemes of arrangement with the borrowers, or (iii) final settlement of the amounts payable under schemes of arrangement, and handling of the customers' requests for such updates.

AIs should review their policies and procedures and ensure the above operational procedures are adequately covered in their internal procedural manuals. As a related issue, AIs should review and update their policies and procedures regularly to ensure that they remain appropriate in the light of changes in relevant legislation and regulations.

**Access control**

We observed that the management of some AIs, in the assignment of duties related to the access of the CRA database, granted both an "Enquiry" (which allows online enquiry of an individual's credit report) and an "Invalid Enquiry Suppression" right (which is used to cancel and reverse an enquiry record in the CRA system) to the same staff. In some instances, the designated staff were also assigned the role of reviewing the daily access log. This practice compromises the principle of segregation of duties and is not conducive to detection of unauthorised access to consumer credit data. AIs should ensure that proper segregation of duties is in place

to prevent any improper access to or mishandling of consumer credit data. AIs should also monitor and verify regularly the appropriateness of the rights of designated staff to access the CRA database and ensure that access rights are granted on a need basis. As a related issue, AIs should ensure that obsolete accounts for accessing the CRA database are removed in a timely manner.

### **Compliance audit**

Some AIs involved in the provision of consumer credit did not conduct a compliance audit annually. We would like to remind AIs that under SPM IC-6 they should conduct a compliance audit at least annually. The audit report, which should assess the overall effectiveness of the data management practices in ensuring compliance with the Code and SPM IC-6, should be submitted to the AI's Board or a designated authority for review. The report should cover issues like security breaches or violations, management's response and recommendations for improvement.

### **Staff training**

During our on-site examinations, we found cases where loan applicants had not fully completed their consent forms; a wrong account type code was used for reporting loan data to the CRA; and credit reports were mistakenly requested using a wrong enquiry purpose code. These findings suggest that the AIs had not provided sufficient training to their staff members involved in the sharing and use of consumer credit data. AIs are reminded to provide sufficient training to all relevant staff members to ensure they are familiar with the applicable requirements, as well as internal policies and procedures.

### **Notification of access for considering mortgage loan application**

Clause 2.13 of the Code provides that where a credit provider has been provided with a credit report on an individual by a CRA and has considered such report in connection with an application for consumer credit by that individual, the credit provider shall, in its notification to the individual of its decision on the application, give notice of the fact that a credit report has been so considered. The credit provider is also required to inform the individual how to contact the CRA who provided the credit report, for the purpose of making access to a copy of the credit report for free under clause 3.18<sup>1</sup> and where appropriate, to make a data correction request under the Personal Data (Privacy) Ordinance. We noted that some AIs:

- did not clearly indicate that a credit report has been so considered, and instead

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<sup>1</sup> Clause 3.18 of the Code provides that as a recommended practice, a CRA shall seek to respond promptly to a data access request without charge in respect of personal data held by it brought by an individual who advises that he has been refused credit by a credit provider to whom a credit report on him has been provided by the CRA.

used vague phrases such as “the institution might obtain and consider a credit report from the CRA” in their notifications to customers;

- did not indicate in their notifications to customers as to how they may contact the CRA to obtain a copy of the credit report for free under clause of 3.18 of the Code;
- in cases where loans approved by the institution were not accepted by the customers, did not give any notice to the loan applicants that the AIs had considered the applicants’ credit reports in connection with their mortgage loan applications; and
- did not give any notice as required under clause 2.13 to the staff members concerned for staff mortgage loans granted.

AIs should put in place proper controls and procedures to ensure that the notification and information required under clause 2.13 of the Code is provided to all relevant individuals whose credit reports were considered. AIs should avoid vague phrases when notifying customers that a credit report has been obtained and considered. The relevant procedures should be documented properly and communicated to all relevant staff for implementation.

#### **Verification of mortgage count**

While AIs generally have put in place procedures to verify the mortgage count and conduct follow up actions on loan applicants in case of any discrepancies, we observed that in some cases, AIs did not maintain documentary evidence indicating that proper follow-up enquiries had been made with the applicants. AIs are reminded that they should maintain proper documentation in this respect.

#### **Contribution of positive mortgage data to the CRA**

We observed that some mortgage loans booked under Commercial Banking Department of some AIs were in fact held by personal borrowers and mortgagors, or shell companies with personal guarantee, and were not related to corporate lending or operating companies. These mortgage loans are within the scope of positive mortgage data sharing scheme. In this connection, we note the industry associations’ recommendation that AIs should not determine whether a mortgage loan is within the scope of positive mortgage data sharing scheme merely based on the name of the business unit under which the loan is booked, but should also look at the borrower of the loan. AIs are reminded that they should participate as fully as possible in the sharing and use of positive mortgage data through the CRA within the framework laid down by the Code.